BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.	A.12-04-019 (Filed April 23, 2012)

COMPLIANCE FILING PROVIDING RESPONSES TO ADMINISTRATIVE LAW JUDGE'S RULING SETTING FORTH QUESTIONS TO BE ADDRESSED

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Dated: November 19, 2013

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California-American Water Company ("California American Water") respectfully submits this compliance filing to address the questions in the *Administrative Law Judge's Ruling Setting Forth Questions to Be Addressed at the Hearings on Proposed Settlement Agreements,* dated November 4, 2013 ("Ruling"). California American Water provides below its response to the items required in Ordering Paragraph 1, subparagraph (a) through subparagraph (e) of the Ruling.

a. Describe the customer service area that will be served by the proposed Monterey Peninsula Water Supply Project ("MPWSP" or "Project") and the rationale for this service area for this Project.

California American Water's Response:

The customer service area to be served includes the Monterey Main System, as well as satellite systems in Hidden Hills, Bishop and Ryan Ranch. The satellite systems are located in the Laguna Seca Sub-Basin which is part of the larger Seaside Groundwater Basin. The customer demand from the satellite systems is approximately 300 acre-feet per year (AFY) currently and the Urban Water Management Plan estimates it would increase to 375 AFY.

The Project will serve the Monterey Main System to provide replacement water supply

for reduced diversions from the Carmel River and the adjudicated Seaside Groundwater Basin. The rationale for including the satellite systems in the plant sizing is to compensate for reduced diversions from the Laguna Seca Sub-Basin. Under the current basin adjudication, the safe yield from that Sub-Basin will decline to zero in 2018. Thus, California American Water will need a replacement water supply for customers currently served with water from the Laguna Seca Sub-Basin. The use of water from the MPWSP is one of three possible options under consideration to address the reduced supply from the Laguna Seca Sub-Basin.[1]

If the plant as currently sized is constructed, and another option becomes viable, California American Water would simply operate the plant at the slightly lower capacity. Given that the plant is currently sized to operate at greater than 95% capacity, even with the minor reduction, the plant would still operate at over 90% of capacity, which is well above industry standard and would provide greater operational flexibility.[2]

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[1] This first option involves the construction of a pipeline to connect the satellite systems with the Monterey Main System. California American Water has not requested permission to construct the pipeline to interconnect these satellite systems to the Monterey main system as part of this Application. California American Water has requested California Environmental Quality Act (CEQA) coverage as part of the on-going environmental work being done by the California Public Utilities Commission (Commission) CEQA team so as to fully recognize the interplay between the projects. California American Water has included the interconnection project as part of its 2015 General Rate Case request. That option would allow the satellites to receive water from the MPWSP.

The second possible option involves the purchase of water rights from a third party located within the Laguna Seca Sub-Basin.

The third possible option would involve obtaining a modification to the judge's order in the basin adjudication. Such a modification would allow California American Water to allocate Costal Sub-Area water rights to the Laguna Seca Sub-Basin. The Seaside Basin Watermaster is currently conducting a study of water levels to determine if such pumping would cause material harm to the to the Basin, a necessary step in determining the feasibility of seeking such a re-allocation. California American Water believes the second and third possible options would be less expensive than the pipeline involved in the first option, so it is pursing them. California American Water, however, also recognizes that, while potentially less expensive, the second and third options are far less certain in terms of implementation. It, therefore, is important to maintain the viability of the first option.

[2] Any difference in plant capacity between how it is currently sized and any possible reduction reached through another solution is immaterial – amounting to less than 4% of the MPWSP's desalination plant's capacity.

b. Provide actual monthly customer usage and production data from 2007 through 2012 for the customer service area to be served by the proposed project. The data shall include calculations of peak hourly demand and maximum monthly demand.

California American Water's Response:

See Table 1 for the monthly system production from 2007 to 2012. See Table 2 for the monthly customer usage over the same time period. Customer usage numbers lag production numbers due to the meter reading process and in some cases water usage may seem high in one month compared to another month. An example of this is the April and May 2007 customer usage amount.

Under Title 22, Chapter 16, Section 64554 of the California Code of Regulations, the maximum day demand and the peak hourly demand are ratios of the maximum monthly demand. For 2007, the maximum day demand is computed to be (1,532 / 31 days times a 1.5 peaking factor) 74 acre feet (AF) or 24 million gallons per day (MGD). The peak hourly flow is then computed to be (74 / 24 hours times a 1.5 peaking factor) 4.6 AF per hour or 35 MGD. As part of the sizing of the plant, and in recognition of declining demands, California American Water and its consultant RBF used a 5 year average maximum month demand.

Table 1 – System Production (AF)
for Monterey Main, Hidden Hills, Ryan Ranch and Bishop

Month	2007	2008	2009	2010	2011	2012
J	960	903	900	801	827	892
F	851	865	801	738	798	952
M	1,061	1,082	982	869	872	792
A	1,148	1,194	1,126	878	942	772
M	1,361	1,377	1,211	1,082	1,145	807
J	1,404	1,449	1,242	1,235	1,083	876
J	1,532	1,496	1,350	1,323	1,225	1,067
A	1,508	1,464	1,368	1,293	1,207	1,186
S	1,412	1,445	1,268	1,225	1,145	987
O	1,214	1,299	1,092	1,089	1,007	962
N	1,156	998	999	896	849	932
D	1,037	888	854	742	889	742
Total	14,644	14,460	13,192	12,171	11,989	10,967
Max Month	1,532	1,496	1,368	1,323	1,225	1,186
Peak Day	74	72	66	64	59	57
Peak Hour	4.6	4.5	4.1	4.0	3.7	3.6

Table 2 – Customer Usage (AF)
for Monterey Main, Hidden Hills, Ryan Ranch and Bishop

Month	2007	2008	2009	2010	2011	2012
J	633	566	807	737	695	892
F	1,037	999	671	581	662	952
M	828	754	741	959	768	792
A	300	970	843	537	749	772
M	1,740	1,060	1,015	834	876	807
J	1,275	1,202	1,135	1,029	823	876
J	1,262	1,363	1,261	1,156	1,110	1,067
A	1,417	1,292	1,189	1,144	1,087	1,186
S	1,322	1,280	1,286	1,191	1,107	987
O	1,248	1,251	1,164	1,126	1,021	962
N	992	1,007	878	944	788	932
D	998	919	900	762	768	742
	13,053	12,661	11,889	10,999	10,453	10,967

c. Provide the calculation of and reconcile and justify the difference in demand calculation for the MPWSP with its projection of demand in the 2010 Urban Water Management Plan for the Monterey District, dated September 7, 2012.

California American Water's Response:

The 2010 Urban Water Management Plan (UWMP) for the Monterey District was in Final Draft form in early 2012 at the time California American Water filed its Application in this

proceeding and was completed in September of 2012. The anticipated desalination plant size used for the UWMP was 9,000 AFY. The basis for this number was a slight modification to the 8,800 AFY desalination plant proposed and approved as part of the Regional Desalination Project (RDP); however, the Final Environmental Impact Report (FEIR) for the RDP incorrectly included a 300 AFY supply from the Sand City desalination plant. While the Sand City plant does have a capacity of 300 AFY, the long-term amount allocated to California American Water is only 94 AFY. Accounting for this yields a desalination plant sized at 9006 AFY. CAW rounded this to 9,000 AFY.

In late July of 2012 (26th and 27th) and in December of 2012 (11th – 13th), California American Water participated in several days of workshops as a part of this Application. It became apparent to California American Water that an additional supply and demand analysis was needed to address the repayment of the Seaside Groundwater Basin, the potential for tourism bounce back, the Pebble Beach allocation and lots of records. Thus, as part of it Supplemental Testimony, California American Water re-sized the desalination plant to accommodate these additional changes. Please refer to Attachment 1 of Exhibit CA-12, the Supplemental Testimony of Richard C. Svindland, for the sizing memorandum conducted by RBF. In an effort to avoid making the desalination plant a lot larger to accommodate the additional demands, RBF looked at increasing the utilization of the Aquifer Storage and Recovery System ("ASR") with desalinated water. The results were that the desalination plant size increase from a plant sized to deliver 9,000 AFY to one to deliver 9,752 AFY to California American Water's customers. The plant size also includes additional water which may be necessary to satisfy the Agency Act's prohibition of exportation of groundwater outside the Salinas Valley Groundwater Basin (referred to as the "Salinas Valley Returns"), as well as some desalination plant downtime. The

UWMP did not anticipate these additional changes; however, the UWMP uses County provided population data to compute future water demands that in a sense covers the lots of record demand that is included with the 9.6 MGD desalination plant.

d. Provide itemized cost estimates for capital and operation and maintenance expenses for the Monterey Peninsula Water Supply Project as currently proposed. Categorize the expenses into three aspects of the Project: desalination, aquifer storage and recovery, and "Cal-Am Only" Facilities. Each category shall list each component and its associated number of units, unit cost, and total cost. The desalination category shall be separated into the three desalination plant options: 6.4 million gallons per day (mgd), 6.9 mgd, and 9.6 mgd

California American Water's Response:

See Attachment 1 for the capital cost and operation and maintenance expenses allocated to the Desalination, ASR and "Cal-Am Only Facilities". The costs for the ASR portion of the MPWSP are included within the "Cal-Am Only Facilities"; however, a separate table is provided to show the cost of the ASR as a stand-alone item.

e. Provide a table showing the anticipated financing approach for each proposed plant size, the impact of financing on the cost per acre-foot of each proposed plant size and financing approach, the associated rate base, revenue requirements, and anticipated bill impacts. Cal-Am shall also provide a net present value comparison of the various financing approaches, assuming that the time frame is the life of the plant and using cost of funds as the discount rate.

California American Water's Response:

See Attachment 2 for a table showing the financial information requested based on plant size, capital cost and financing scenarios. Specifically, the table addresses three desalination plant sizes: (1) 9.6 MGD plant, (2) 6.9 MGD plant with 3,000 acre-feet per year of GWR water,[3]

[3] As set forth at page 4 of the Settling Parties' Motion to Approve Settlement Agreement on Plant Size and Operations, filed on July 31, 2013, the settling parties to the Sizing Agreement agreed to a new project size of 6.9 MGD to accommodate 3,500 acre feet per year from the GWR. The 6.9 MGD plant size was the result of settlement

and (3) 6.4 MGD plant with 3,500 acre-feet per year of GWR water. The table reflects two capital scenarios: (1) combined capital cost up to the advice letter cap, and (2) combined capital costs up to the petition for modification cap. Finally, the table reflects four financing scenarios all assuming contributions under Surcharge 2: (1) CAW long-term debt and equity, (2) SRF debt and CAW equity, (3) CAW long-term debt and equity and securitization, and (4) SRF debt, CAW equity and securitization. This last financing scenario is our base case assumption in the Settlement. In total, the table presents 24 scenarios for comparison purposes. The model used to develop the chart was based on the agreed-upon financial model in the proceeding. It was adjusted to remove future capital investments and replacements beyond year 1 as well as excludes any capital structure rebalancing that was part of the agreed-upon model. This was done to isolate the revenue requirement and financing impacts associated with the initial plant investment (e.g. desalination, GWR and pipeline investments). The discount rate for the net present value analysis was based on California American Water's authorized pre-tax cost of capital except that the cost of debt was set equal to 4.3% on an after-tax basis.

Dated: November 19, 2013

Respectfully submitted,

By: */s/ Sarah E. Leeper*
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negotiations, and as such, is not part of California American Water's original submission in the proceeding.